

PORTFOLIO MANAGERS' VIEWS



7 March 2022

MALAYSIA

1. THE WEEK IN REVIEW (28 February to 4 March 2022): The situation in Ukraine worsened over the past week. Unfortunately, civilian casualties have risen as a result of the relentless Russian bombing. But it was the threat of nuclear fallout from the attack on the Zaporizhzhia facility, the largest nuclear power plant in Europe, which brought tensions and anxiety in Europe to a new high.

But when global equities buckled under continuous geopolitical tension in Ukraine, Malaysia's KLCI shone with a one-week gain of 0.8% to edge the year-to-date returns to 2.3%. Although the sanctions imposed on Russia for its military invasion of Ukraine and the threat of widespread war with the rest of Europe are negative for global equities, the repercussions of war on commodity supplies worldwide is positive for commodity prices. This bodes well for commodity producers in Asia, where ASEAN countries benefit due to its natural resources. In turn, the commodity-equity constituents of the KLCI drove the index higher.

i) Russia, which accounts for 11% of global oil exports (2nd largest exporter) is facing difficulties in selling its oil amid economic sanctions and talks to ban Russian oil imports into the Europe. This would displace 4.3 million barrels per day (mbpd) of oil supplies from the world. Consequently, oil prices rose 30% WoW to trade at USD127/bbl.

ii) In agriculture, crude palm oil (CPO) price remains elevated as it is one of the world's top edible oils alongside sunflower and soybean. As Ukraine and Russia are estimated to ship 75% global sunflower oil exports, disruptions in this oil have driven CPO prices higher by 31% year-to-date. CPO price may stay elevated due to labour shortages in plantations in Malaysia and export restrictions in Indonesia.

MALAYSIA ('cont)

iii) In the metals sector, aluminum prices rose 14% WoW to trade at \$3,850/t. Aside from the Russia-Ukraine tension, the meteoric rise in prices is also led by tighter China production (57% of global production) and plant shutdowns as Russia, the world's third-largest producer, accounts for 6% of global aluminum production.

2. STRATEGY & OUTLOOK: Sentiment will no doubt be fragile in the days ahead. Last week, we mentioned that we were buyers on weakness of Malaysia equities. Year-to-date 3 March 2022, Bursa Malaysia has seen RM 3.6 bil of net buying from foreigners. This is a stark reversal of the foreign selling experienced in recent years. The Ukraine crisis and technology sell-down have forced investors to reduce their weightings in Russia and North Asia. On the local front, the drag from EPF's withdrawal scheme (i-Lestari, i-Sinar and i-Citra) is subsiding. Anecdotally, local institutions have ample cash to turn net buyers of equities. In addition, Malaysia's commodities exposure offers the country some insulation from the conflict-induced downward revision of global GDP in the quarters ahead. Assuming Brent crude at USD 100/bbl (vs Budget 2022 assumption of USD66-67/bbl), a local broker estimates a positive fiscal impact of RM 4.8 bil (or 0.3% of GDP) net of fuel subsidies i.e. assuming prices of RON 95 and diesel are unchanged. Finally, after a prolonged period of disappointing results, earnings for the Malaysia market performed better than street estimates and were tweaked up after the recent 4Q reporting season. We have a decent exposure to oil and gas, metals, petrochemical and CPO across our portfolios.

On valuations, Malaysia remains fair after the recent market rally. As at last Friday's close, the KLCI's (1) forward price-earnings ratio (PER) of 15.1x is below its five-year average PER of 16.3x (2) forward price-to-book (PBR) rose to 1.53x, which is below 5Y average level of 1.57x and (3) the market's prospective dividend yield (DY) of 3.9% is +1SD above its 5Y average of 3.5% (historically 3.0% to 4.5%).

REGIONAL

1. THE WEEK IN REVIEW (28 February to 4 March 2022): Most regional markets were lower, with the regional index falling 2.8% week-on-week as geopolitical risk heightened. Malaysia (+0.8% WoW) and Indonesia (+0.6%) outperformed as these commodity-driven economies have been receiving foreign fund flows into their stock exchanges (see Exhibit: Foreign Net Flows) despite equity volatility elsewhere. Value-investing continues to be “in” as investors seek “old economy” plays in companies engaged in primary industries like soft and hard commodities and metals. As a result, technology-heavy, "growth" markets in North Asia have seen their markets de-rate, whereas "old economy" markets in ASEAN are seeing upward re-ratings, especially in stocks involved in the upstream activities. The added support for ASEAN markets is the economic re-opening play, where domestic consumption is expected to cushion the external risks. Separately, China announced on Saturday a gross domestic product (GDP) growth target of 5.5% for 2022 at its annual parliamentary meeting.

2. STRATEGY & OUTLOOK: We believe ASEAN's re-emergence in investors' radar comes on the back of the region's equity exposure in the commodity upstream sectors. Compared to North Asian equity markets that are capitalized heavily in technology stocks, ASEAN is more attractively-valued and is experiencing earnings upgrades from the rising commodity prices. For instance, the Asia ex-Japan energy sector (with proxies to regional petrochemical producers) is valued at one-year forward PER 10.9x, significantly lower than the region's technology valuation of 14.2x and the region-wide market valuation of 13.1x. Also, the higher commodity prices are expected to be positive contributors to their economic growth, which in turn supports firmer currencies and fund flows into the region.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

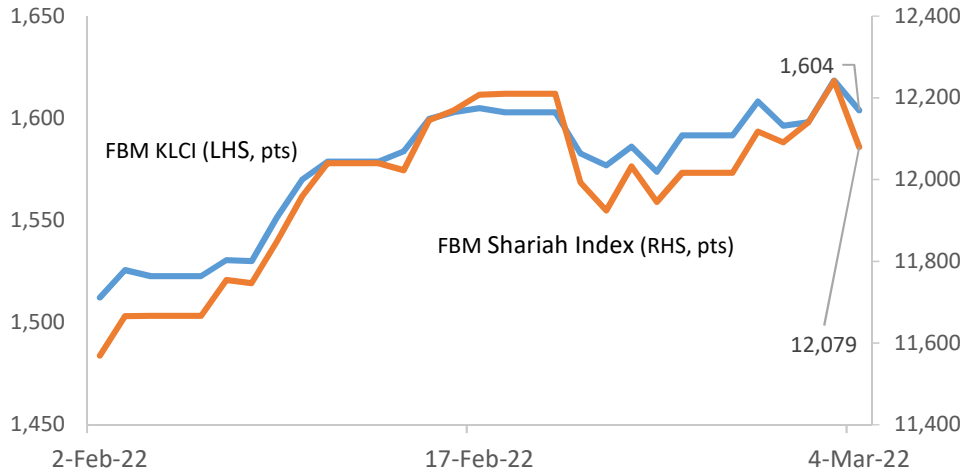


Exhibit 2: USDMYR FX

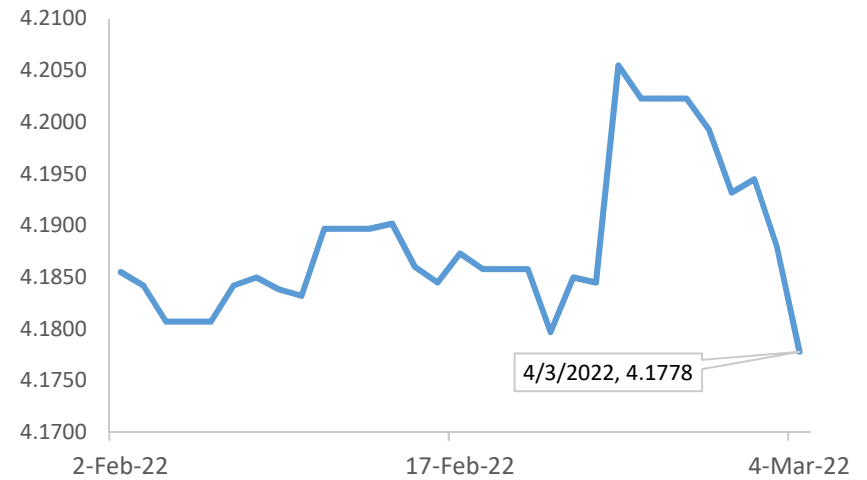


Exhibit 3: Sector Performance Indices (1 Week, %)

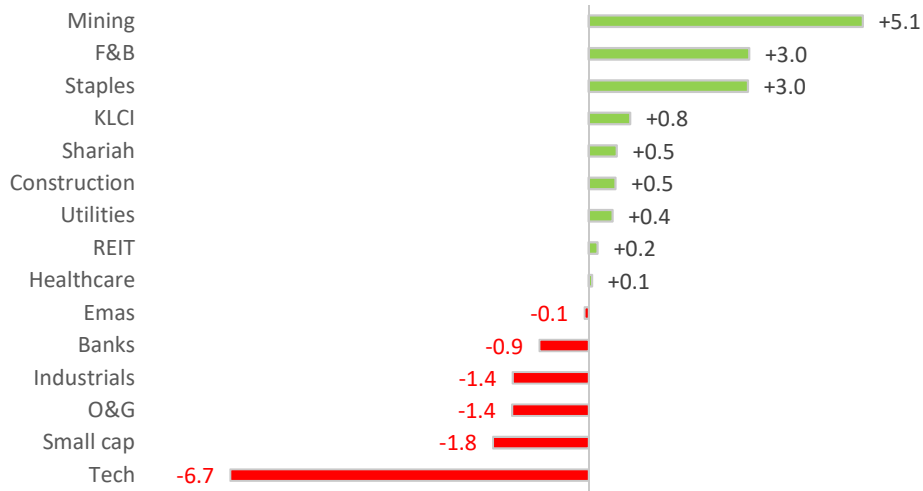
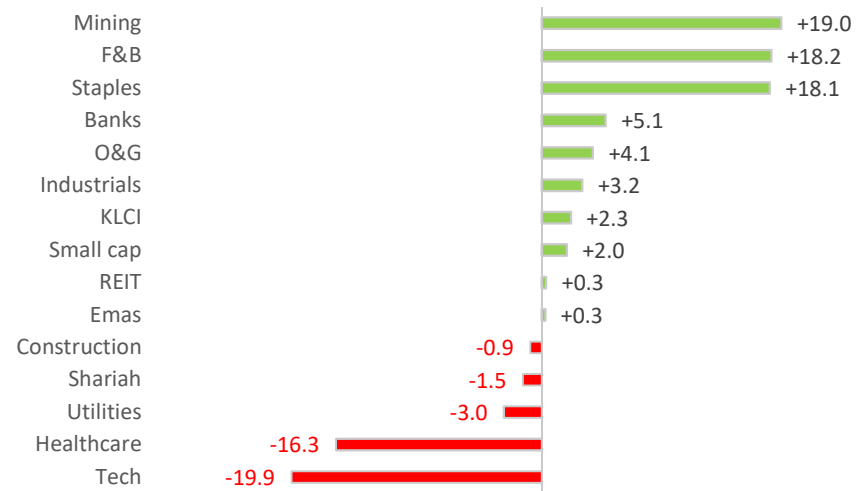


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



MALAYSIA

Exhibit 5: Malaysia's Premium/Discount to Asia ex-Japan based on Forward PER (%)

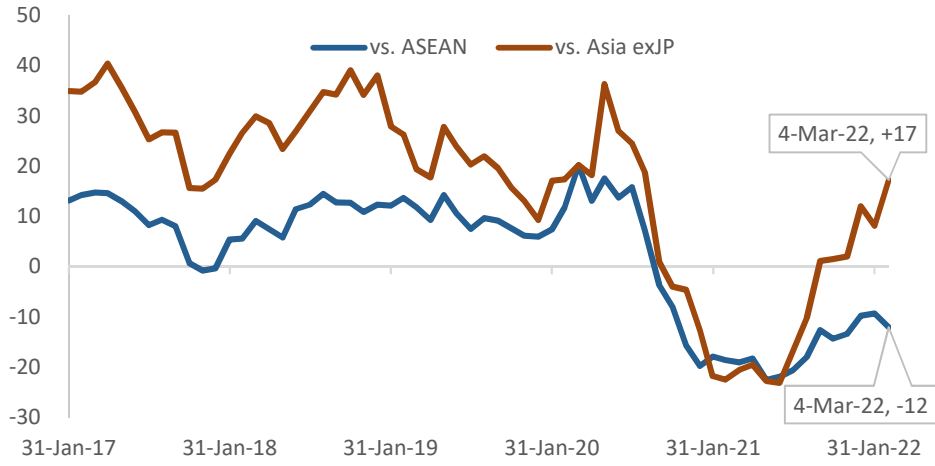


Exhibit 6: KLCI Forward Price-Earnings Ratio (PER, x)

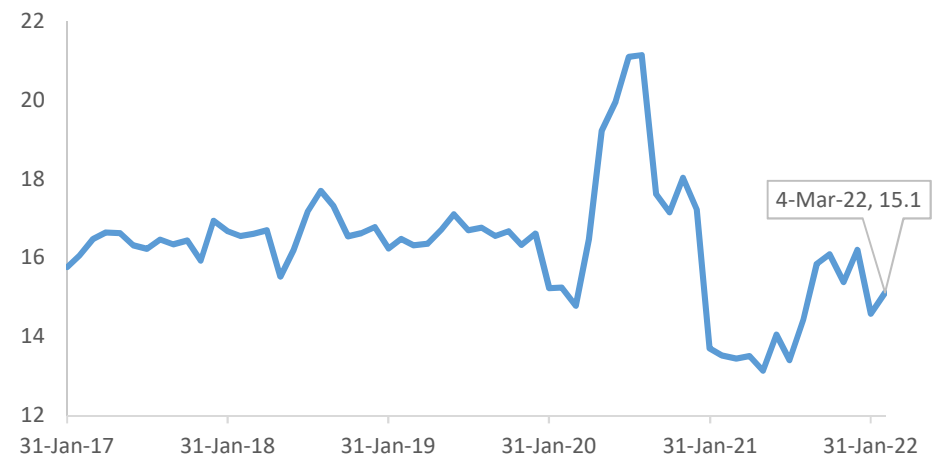


Exhibit 7: KLCI Forward Price-to-Book Ratio (PBR, x)

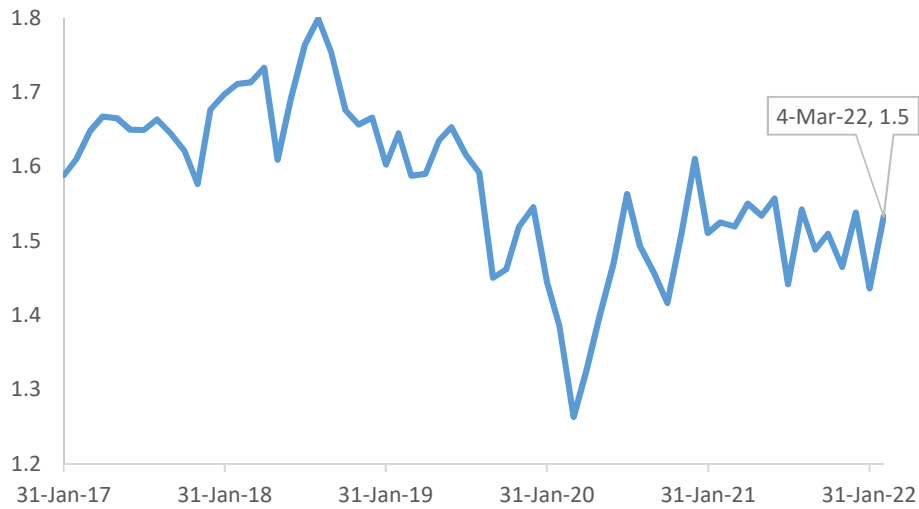
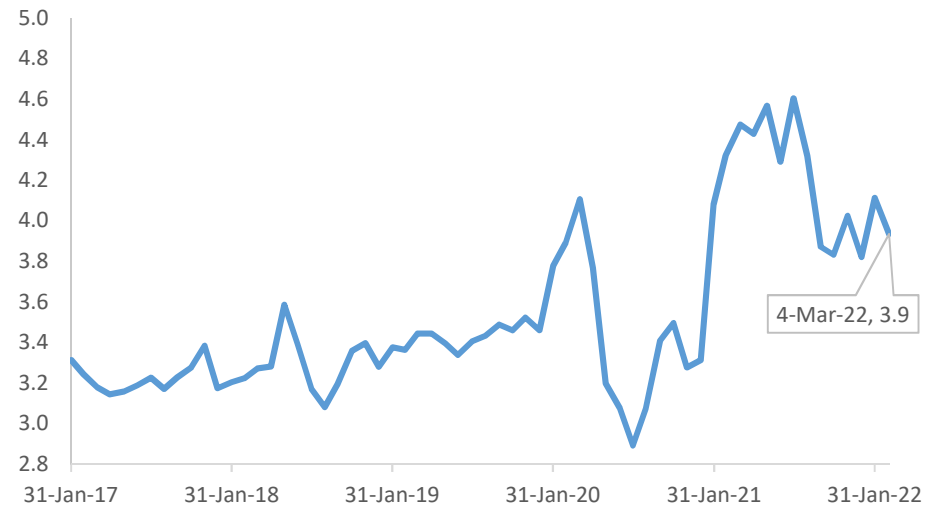


Exhibit 8: KLCI Forward Dividend Yield (DY, %)



REGIONAL

Exhibit 1: Country Performance Indices (1 Week, %)

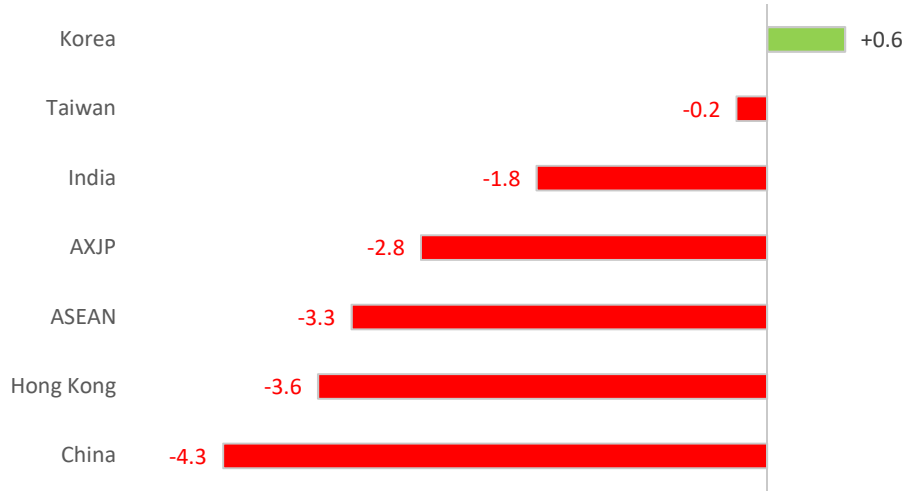


Exhibit 2: Country Performance Indices (Year-to-Date, %)

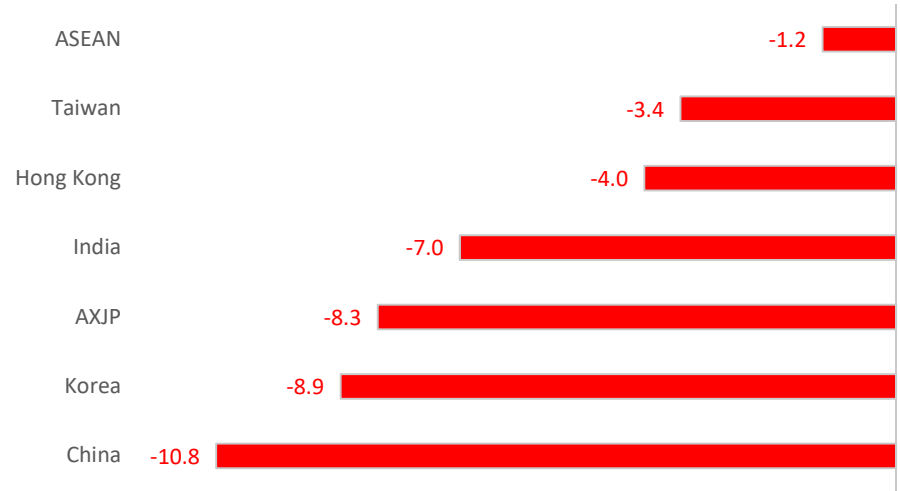


Exhibit 3: Sector Performance Indices (1 Week, %)

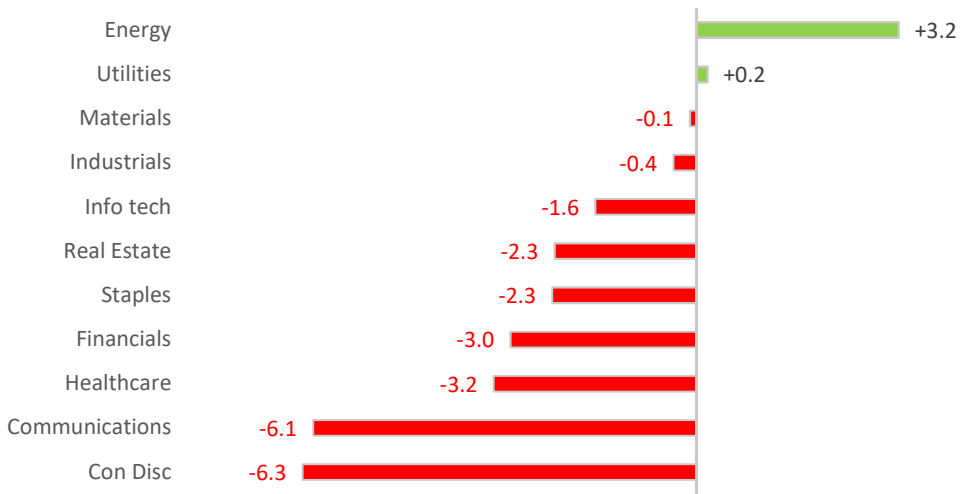
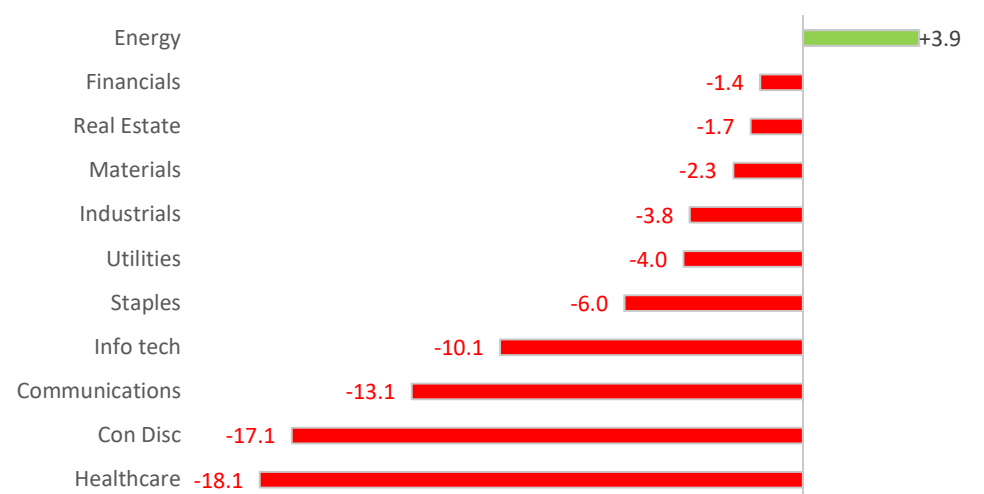
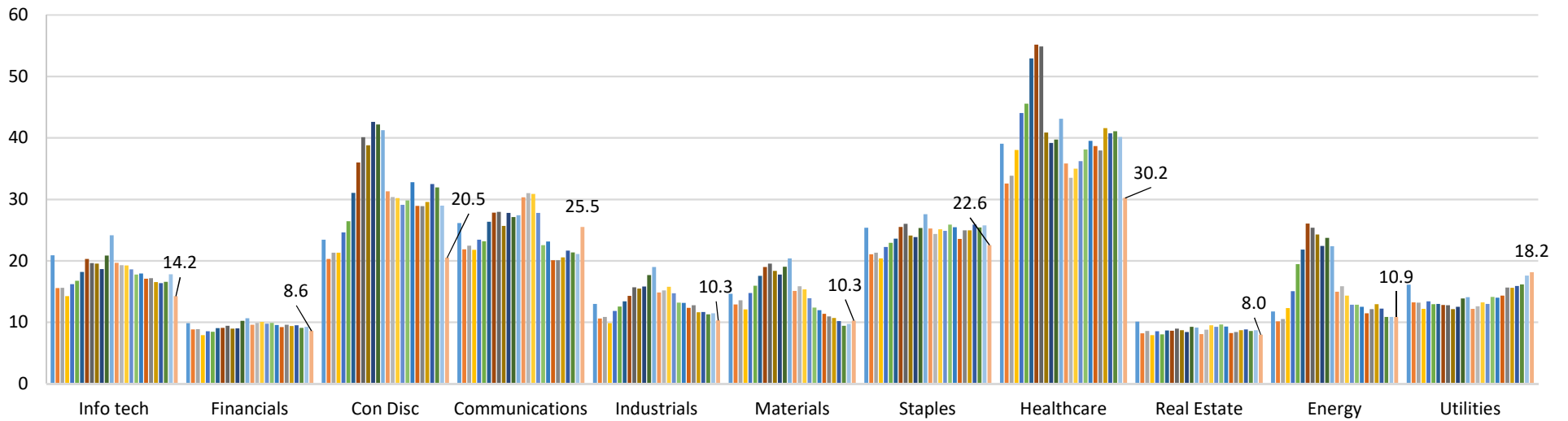
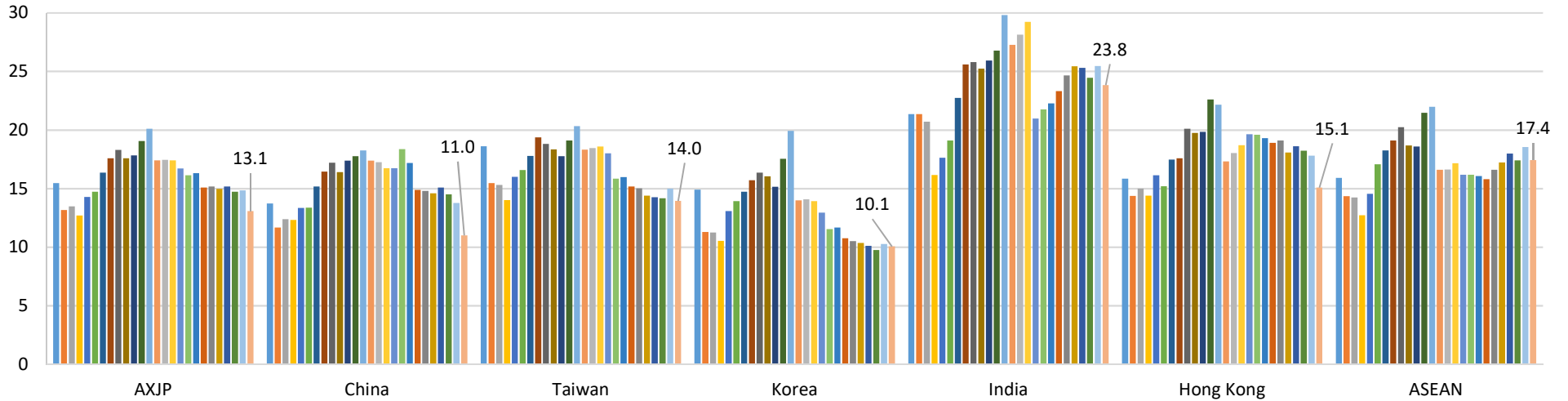


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



REGIONAL

Exhibit 5: Forward Price-Earnings Ratio (Dec 2019-Current)



FOREIGN NET FLOWS

Exhibit 6: Selected ASEAN Equity Markets (Net USD mil)

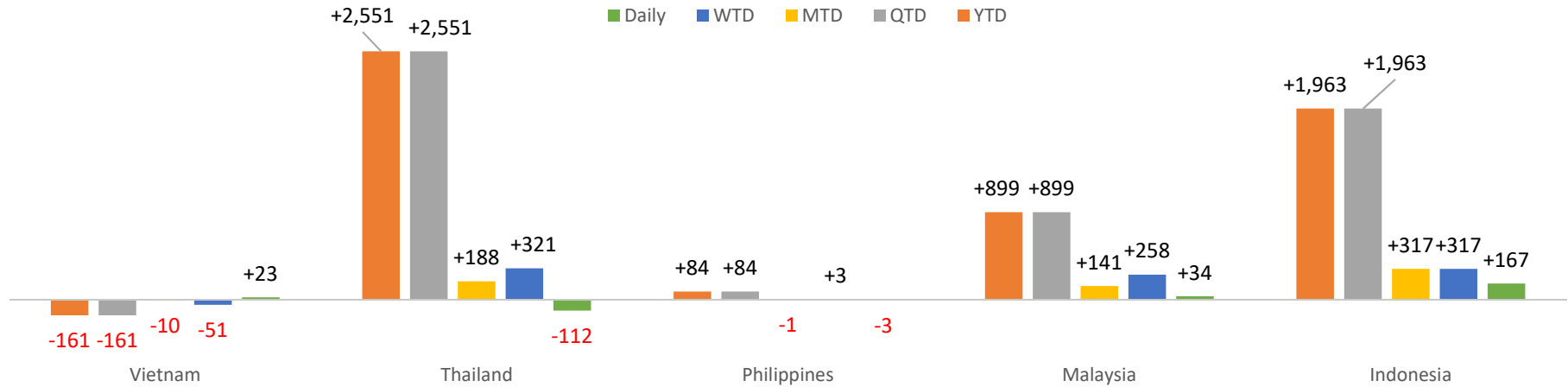
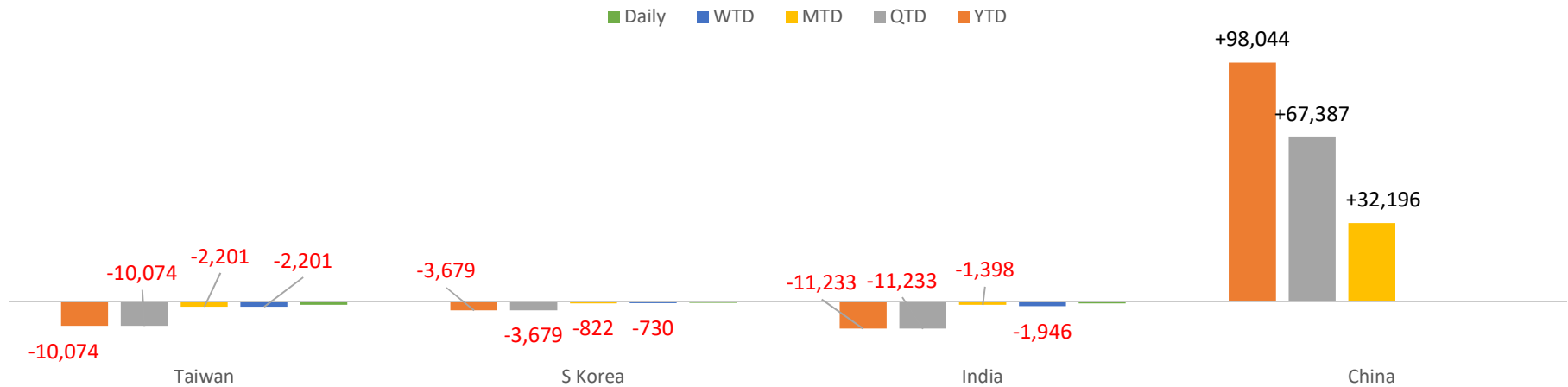


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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